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Arizona Corporation Commission

DOCKETED

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14 Attorneys for Arizona Public Service Company

11 **BEFORE THE ARIZONA CORPORATION COMMISSION**

12 COMMISSIONERS

13 TOM FORESE, Chairman
14 BOB BURNS
15 ANDY TOBIN
16 BOYD DUNN
17 JUSTIN OLSON

18 IN THE MATTER OF THE
19 APPLICATION OF ARIZONA PUBLIC
20 SERVICE COMPANY FOR A HEARING
21 TO DETERMINE THE FAIR VALUE OF
22 THE UTILITY PROPERTY OF THE
23 COMPANY FOR RATEMAKING
24 PURPOSES, TO FIX A JUST AND
25 REASONABLE RATE OF RETURN
26 THEREON, TO APPROVE RATE
27 SCHEDULES DESIGNED TO DEVELOP
28 SUCH RETURN.

DOCKET NO. E-01345A-16-0036

**ARIZONA PUBLIC SERVICE
COMPANY'S NOTICE OF INTENT
TO FILE A SELECTIVE
CATALYTIC REDUCTION RATE
RIDER**

24 IN THE MATTER OF FUEL AND
25 PURCHASED POWER PROCUREMENT
26 AUDITS FOR ARIZONA PUBLIC
27 SERVICE COMPANY.

DOCKET NO. E-01345A-16-0123

1 **I. INTRODUCTION**

2 APS provides 60 days' notice of its intent to file a Selective Catalytic Reduction
3 (SCR) Rate Rider Application (Application) to permit recovery of costs associated with
4 the installation of SCR equipment at the Four Corners Power Plant Units 4 and 5 (SCR
5 Rate Rider). Consistent with Decision No. 76295 (August 18, 2017), this Application
6 will be narrow in scope and will not raise issues beyond those contemplated by Section
7 9 of the approved Settlement Agreement. APS intends to file the Application on
8 February 28, 2018. The Application will propose that the SCR Rate Rider go into effect
9 as soon as possible, but no later than January 1, 2019.

10 **II. BACKGROUND**

11 To meet the Regional Haze Regulations authorized under the federal Clean Air
12 Act, the EPA's Federal Implementation Plan (77 FR 165, August 24, 2012), and the
13 Consent Decree entered on August 17, 2015, the Company must install SCRs on Units 4
14 and 5. Under APS's agreement with the federal EPA and environmental groups, the first
15 SCR must be in operation by March 31, 2018 and the second SCR by July 31, 2018.
16 This equipment will significantly reduce emissions of oxides of Nitrogen (NOx) and
17 Sulfur (SO₂), which contribute to regional haze, while enabling APS to continue using
18 this important resource to supply its customers with baseload generation.

19 APS is on track to meet the compliance deadlines set by the federal government.
20 The Company finished installing the SCR equipment at Unit 5 and put the equipment
21 into operation on December 17, 2017. APS is in the process of installing SCR
22 equipment on Unit 4 and expects the Unit 4 equipment to be completed and fully
23 operational by April 2018. However, due to the timing of the SCR installation, APS
24 could not include the SCR installation costs in its last general rate case. The deferral
25 and step increase approved in Decision 76295 were mitigating alternatives to APS
26 having to immediately file another rate case. The deferral order authorized the
27 Company to defer all non-fuel costs (as defined herein to include all O&M, property
28

1 taxes, depreciation, and a return at APS's embedded cost of debt in this proceeding) of
2 owning, operating and maintaining the SCRs for possible later recovery through rates.
3 This Docket was held open for the sole purpose of allowing APS to file this Application
4 to request its rates be adjusted to reflect the revenue requirement and deferral costs
5 associated with the SCRs.

6 **III. KEY ISSUES AND EFFECTIVE DATE**

7 The requested amount of rate adjustment is still pending finalization, however the
8 project's direct capital costs are currently tracking to be slightly lower than the \$400
9 million that was previously forecasted in APS's last general rate case. Additionally, the
10 Application will include indirect costs and Allowance for Funds Used During
11 Construction (AFUDC) of approximately \$40 million. These costs will be updated with
12 the Company's Application.

13 Consistent with what was previously discussed in the Company's last general rate
14 case, the Application will request a revenue requirement adjustment of approximately
15 \$70 million. The revenue requirement adjustment will be revised and updated to reflect
16 the newly enacted federal tax legislation. APS will propose that this revenue
17 requirement be recovered as an equal percentage adjustment to the base rate portion of
18 customers' bills¹, which would equate to an approximate 2% customer base rate bill
19 impact.

20 The four key issues that APS intends to include in its Application are:

- 21 • Fair Value Return on Rate Base - APS will propose using the Weighted
22 Average Cost of Capital (WACC) established in APS's last general rate
23 case of 7.85% and the Fair Value Increment (FVI) also established in
24 APS's last general rate case of 0.8% for determining the fair value return
25 on rate base.

27 ¹ For AG-X customers, the 2% will be applied only to the non-generation portions of their bill.
28

- 1 • Return on Deferral - As agreed upon in the approved Settlement
2 Agreement, APS is using the Embedded Cost of Debt established in APS's
3 last general rate case of 5.13% for the deferral.
- 4 • Depreciation Rate - APS will propose a 5% depreciation rate based on the
5 straight-line method using end-of-life assumptions of 2038, consistent
6 with end-of-life assumptions used in the depreciation study approved in
7 Decision No. 76295.
- 8 • Deferral Amortization - APS will propose amortizing the deferral over 5
9 years. Including depreciation expense, property taxes, and a capital
10 carrying charge (calculated using the embedded cost of debt of 5.13%
11 established in APS's last general rate case), APS estimates the total
12 deferral costs for both SCRs would be approximately \$25 million.

13 The approved Settlement Agreement acknowledged that the parties would use
14 “good faith efforts to process the rate adjustment request such that any resulting rate
15 adjustment becomes effective no later than January 1, 2019, pursuant to Section 9.1”.
16 An effective date of January 1, 2019 would involve processing APS's Application
17 within 10 months. However, APS supports concluding this matter as expeditiously as
18 possible and believes it can be resolved sooner. APS intends to continue its practice of
19 diligent work with all stakeholders to efficiently process this Application. To help
20 achieve this outcome, APS will confer with the parties on key issues, and hold a
21 technical workshop on January 18, 2018 for greater clarity and transparency. In
22 addition, to encourage open dialogue, APS plans to invite interested parties to also begin
23 informal settlement discussions at that time. These efforts, among others, will assist in
24 resolving this matter most efficiently.

25 **IV. TENTATIVE WITNESS LIST AND SCHEDULES**

26 To support the Company's request and the issues identified, the following is a
27 preliminary witness list for APS and the topic each will address in their testimony:
28

1 Barbara Lockwood

Overview of the Application

2 Elizabeth Blankenship

Revenue Requirement

3 Ms. Lockwood will provide testimony about the history and importance of this
4 project and the Four Corners Generation Plant. She will also provide testimony
5 supporting the prudence of the transaction and customer bill impacts. Ms. Blankenship
6 will describe the various rate base and operating income adjustments that comprise the
7 revenue requirement, demonstrate that the operating income resulting from the rate
8 adjustment will not result in a return on rate base in excess of what was authorized in
9 APS's last general rate case, and explain how the Rate Rider will be calculated.

10 In addition, consistent with Section 9.3 of the Settlement Agreement in APS's
11 last general rate case, the Application will contain the following schedules: (1) the most
12 current APS balance sheet at the time of filing; (2) the most current APS income
13 statement at the time of filing; (3) an earnings schedule that demonstrates that the
14 operating income resulting from the rate adjustment does not result in a return on rate
15 base in excess of that authorized by this Agreement in the period after the rate
16 adjustment becomes effective; (4) a revenue requirement calculation, including the
17 amortization of any deferred costs; (5) an adjusted rate base schedule; and (6) a typical
18 bill analysis under present and filed rates.

19 **V. CONCLUSION**

20 APS plans to file its Application on or about February 28, 2018 with a proposed
21 effective date for new rates as soon as possible, but no later than January 1, 2019.

22 RESPECTFULLY SUBMITTED this 29th day of December 2017.

23
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